U2030-1

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XV, No.3
November 8, 1990

ECONOMIC RESULTS FOR FIRST NINE MONTHS OF 1990

(Million tons unless otherwise indicated)

Product	First 3/4 of1990 Output	1990 as % of 1989
Electricity (bil. kw hrs)	1261	100
Oil	433	95
Gas (mil. m^3)	602	103
Coal	528	95
Steel	n/a*	98
Metal Cutting machine tools (1000 units)	n/a*	n/a*
Computer technology (million rubles)	n/a*	n/a*
Tractors (1000 units)	n/a*	94
Mineral Fertilizer	n/a*	n/a*
Pharmaceuticals (million rubles)	n/a*	n/a*
Paper	n/a*	n/a*
Cement	n/a*	n/a*
Meat	9	96
Sausage products	2.9	100
Edible fish products	4.2	96
Butter	2.3	100.2
Cheese (1,000 tons)	710	99.6
Wholemilk products	26.2	102
Margarine products (million tons)	1.1	98
Granulated sugar	5.4	91
Confectionary	3.8	103
Canned foods (bil. cans)	14.9	96
canned fruit/vegs	10.2	93
Nonalcoholic beverages (million dekaliters)	486	94

*n/a indicates figures are not available

Product	First 3/4 1990 Output	1990 as % of 1989
Footwear (mil. pairs)	592	99.5
Television sets (million units)	7.8	107
Refrigerators/freezers (million units)	5.3	100.7
Radios (million units)	6.8	108
Tape recorders (million units)	4.6	109
VCRs (thousands)	317	360
Sewing machines (million units)	1.3	117
Washing machines	5.8	118
Vacuum cleaners (million units)	4.2	114
Furniture (mil. rubles)	7.7	108
Motorcycles (thousands)	747	105
Cars (thousands)	943	104
Paper Goods (mil. rubles)	732	109
Household soap (thousand tons)	528	102
Toilet soap (thousand tons)	228	104

Working Force in millions

(First Nine Months of 1990)

	1989	1990
In the state sector	116.3	114.5
In the cooperative sector:	17.5	18.4
Kolkhozes	11.5	11.2
Consumer cooperatives	3.4	3.4
Cooperatives producing goods and providing services	2.6	3.8

THERE IS MORE GLOOMY NEWS DURING THE FIRST THREE QUARTERS OF 1990

The bad news continues. Overall the Soviets report that national income is down 2.5% during the first nine months of 1990 compared to a similar period in 1989. That presumably does not allow for inflation which would make the actual drop in national income much higher.

There are other factors as well that suggest just how serious the situation is. Freight shipments are down by 4.7%. Profits of Soviet enterprises are down by 3.9%.

The Soviets, as they did last year, have not provided us with a full list of production reports for specific industries. However we can reconstruct some and have done that in the accompanying table. It shows that oil output for the first 9 months is down 5% as is coal production. The rate of decline at least in the oil industry seems to be accelerating a bit and as we mentioned earlier, that presumably means that oil production for the whole year at this rate will total only 570 million tons or approximately 11.5 million barrels a day compared to 607 million tons or 12 million barrels a day in 1989 and 624 million tons or 12.5 billion barrels a day in 1988. The production of gasoline for automobiles and diesel fuels is also down which suggests that the refineries are also having difficulties. Gasoline refining for automobiles is down 5% and diesel fuel is down 2%. Electrical generation remains constant although the electricity being generated from nuclear facilities actually rose 3%. Other random figures indicate that tractor output was down 6% and steel was down 2%.

There is some good news. Gas output rose by 3% and output of consumer goods rose significantly. That is indicated in the accompanying table.

Despite the increase in consumer good output, however there are still very serious shortages in Soviet shops. This in large part is due to the fact that money incomes rose by 14% during the nine month period while planned growth was to be only 7%. This pushed up the average wage to 257 rubles a month compared to 237 the year earlier. The most bothersome of all is the fact that the prices of food products on the collective farm markets rose by 24%. Meat prices for example rose by 30%. This is largely a reflection of the disappearance of goods from the state stores. Nor did it help that meat production fell by 4%. The statistical authorities put out a long list of goods that are now officially in short supply. It includes flour, fish, margarine, eggs, salt, and they report that in some areas there is not even enough sugar to match the sugar coupons that have been distributed. It was obviously bothersome that only 28% of the harvest of potatoes was met by October 8th of this year which is already very late.

The Soviet statistics do indicate that change is occuring. The number of workers in the government sector dropped by one and a half million. At the same time the number of workers involved in the cooperatives producing goods and providing services rose by over a million.

At the same time the number of people on strike for economic or ethnic reasons continues to be very large. The average fell to 50,000 per day which is still a large number but somewhat less than it was at the beginning of the year.

Housing construction fell 8% from last year.

Finally the Soviets do seem to be having some difficulty in their foreign trade. Crude oil exports fell by 6.3 million tons and the export of gasoline for cars fell by 2.1 million tons and diesel fuel by 2.2 million tons. At the same time grain imports rose by 17% and meat imports rose by 71% compared to the

previous year. Soviet sources also indicate that there are now slightly more than 2000 joint ventures officially registered.

What seems to be taking place is that there is structural change in the economy but it is not changing quickly enough as yet to make up for the decline in the production and sales in the state sector. It is not just that the figures seem to be down, but the tone of the statistical report is one of the most pessimistic that has ever been printed. It as if the statistical authorities take it for granted that conditions are bad and will continue to deteriorate.

CONVERSION - WHO SAID IT WOULD BE EASY?

The Russian Research Center in conjunction with the Economics and National Security Program of the Center for International Affairs at Harvard have joined together to convene one of the more unique conferences offered in our corporate sponsor series. On Monday, February 4, 1991, we will bring together a group of Soviet and American military specialists. Both sets are engaged in the effort to convert the military sector to civilian production. Representatives from some of the leading military producers in this country have agreed to make presentations. The list of those who have already accepted are listed in the accompanying program. In addition we will bring from the Soviet Union three representatives from the nuclear weapons sector. They include a deputy minister of defense and a plant manager as well as the director of the Central Economic and Mathematical Institute, a major consultant for the defense sector.

This encounter promises to be a most unusual one. It will be open to members of the public and an application form is included with this newsletter.

The opinions published here reflect those of the author and not the Russian Research Center unless stated as such. ©1990.

U2050-1

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XV, No.4
December 15, 1990

Inflation Verges on Hyperinflation

The Soviets have begun to release new data about inflation. For many years they denied any such thing existed but now as money emissions increase in order to finance the budget deficit, it becomes more and more of the problem and more and more overt. There are indeed some who have begun to warn about hyperinflation. There is considerable reason for such worry. According to one recent report in Rabochaia tribuna food prices on the collective farm markets on June 1, 1990 were 23% above those during the same period last year. However in July the prices were 33% higher than in the previous July, in August 35%, in September 45% and then in October over 50%. Of course that does not encompass all prices but as fewer and fewer goods work their way through the official state distribution sector, then the prices in the peasant markets become all the more important. In addition the Soviet authorities have announced that the price of milk rose 15% in October compared to September. The price of eggs rose 55%.

We have included a table about the average price of selected agricultural products in various cities throughout the Russian Republic. What is particularly striking is the variation between different cities. Whereas the price of meat in the collective farm markets of Moscow is 20 rubles or more per kilogram, in Krasnoyarsk it is only 9 rubles per kilogram and in Volgagrad only 8 rubles per kilogram. There are similar fluctuations in the price of eggs, potatoes and all goods. This reflects recent observations that supplies which used to go first to Moscow and Leningrad now tend to stay in the countryside.

We also include a table showing the relative price of goods on the black market for the Russian Republic as a whole and how that figure compares to the price in government stores. Thus the meat price is 9 rubles on average throughout the Russian Republic which is four times higher than the price in state stores.

Black Market Prices in the RSFSR as Compared to Government Prices (in rubles per kilogram or unit)

Product	Black Mkt price	Difference with government price
Meat	9	4.0 times
Sausage	19	3.0 times
Coffee	15	2.5 times
Chocolate	20	8.0 times
Woman's overcoat	1,236	2.4 times
Cigarettes	5	8.0 times
Books	32	6.0 times
Color television	2,021	2.4 times
Automobiles:		
"Moskvich" type	30,700	3.0 times
Medicines	35	8.0 times

As of October 22, 1990
(rubles per kilogram)

City	beef	eggs (one dozen)	potatoes	cabbage	onions	apples
Moscow	20.64	8.75	1.37	2.16	2.23	3.50
Leningrad	18.40	5.33	1.48	1.78	1.71	3.30
Irkutsk	10.00	2.00	1.50	1.50	1.80	5.00
Orenburg	8.00	2.00	0.80	0.80	1.00	3.00
Volgagrad	8.00	3.00	1.00	1.40	1.10	3.00

The Soviet Authorities are Concerned About Not Only External Immigration Which They are Allowing, But Internal Immigration

More and more Russian citizens for example have decided to leave the different minority republics where they have been living in some cases for several decades and move instead to the Russian Republic where they feel safer. Thus according to one report in Moscow News, the number of indigenous inhabitants who left Uzbekistan reach 94,000 in 1989. This year the overall number from all of Central Asia who will move is expected to be greater than 200,000. This has meant in some cases that there are no personnel to service equipment. Thus there is no one available to operate two 300,000 kilowatt power units at a thermal electric plant in Uzbekistan. This is yet one other reflection of internal chaos.

The Average Black Market Prices in the Soviet Union as Compared to Government Prices
(in rubles per unit)

Product	Black Mkt price	Difference with government price
Refrigerator	900	2.2 times
Washing machine	310	2.2 times
VCR	5,300	2.6 times
Sewing machine	600	2.7 times
Vacuum cleaner	132	2.4 times
Bicycle	186	1.9 times
Color television	1,700	2.2 times
Automobiles: "Gaz" type	30,000	3.6 times

The Latest Figures onPrivate Farms Are In

As of July 1, 1990, after almost three years of trying, there were only thirty thousand family and private farms in the Soviet Union. Over one-half were in the republic of Georgia, and one-third in Latvia, Lithuania and Estonia, but only 900 in the Russian Republic and twelve in the Ukraine. Please see table on the following page.

NUMBER OF PRIVATE FARMS BY UNION REPUBLIC AS OF JULY 1, 1990:

USSR	29,547
RSFSR	900
Ukraine	12
Belorussia	21
Uzbekistan	1076
Kazakhstan	188
Georgia	16,516
Azerbaidzhan	24
Lithuania	1718
Moldavia	--
Latvia	6974
Kirghizia	18
Tadzhikistan	--
Armenia	2
Turkmenia	--
Estonia	2098

FOREIGN EXCHANGE RATES

as of November 7, 1990
Quoted in rubles

	Official Rate	Commercial Rate	Special Rate
£100 Sterling	107.95	323.80	431.80
100 Aust. Sch.	5.25	15.75	52.50
100 D. Marks	36.94	110.82	369.40
100 D. Guilders	32.74	98.22	327.40
100 U.S. Dollars	55.17	165.51	551.70
100 Fr. Francs	11.00	33.00	110.00
1,000 Jap. ¥	4.34	13.02	43.40
10,000 It. Lire	4.91	14.73	49.10
100 Swiss Frs.	43.80	131.40	438.00
100 Nor. Kroner	9.47	28.41	94.70
1,000 Bel. Frs.	17.94	53.82	179.40
100 Sw. Kronor	9.90	29.70	99.00

The opinions published here reflect those of the author and not the Russian Research Center unless stated as such ©1990.

U 2030-1

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XV, No.5
January 15, 1991

Economic Output For January To November 1990

Again the Soviets did not present or publish a formal breakdown of statistics. They have published selected figures indicating that in some cases the USSR State Committee for Statistics lacked figures itself. In particular they did not have information about the production of meat and edible food oils.

The materials that are provided are highly selective and in the case of gross indices they may not be all that reliable. It was reported that industrial output was down .9% during the first eleven months of 1990 compared to 1989. For the month of November alone industrial production was down almost 2% compared to the month of November the year earlier. Some of the information indicates that the situation seems to have deteriorated during the last few months of the year. That certainly bears out other reports of economic problems within the country.

One cause for considerable concern is the fact that oil production is down 6%. For the first 3/4 of the year production was down only 5%. That shows an increase in the rate of decline. Coal production is still down 5% while gas production continues to increase although no figure is given.

Also of concern is the fact that very little was being completed in drawing up the contractual arrangements for 1991. The deadline for the signing of contracts had been set for December 15 but as of October less that 40% of the plans of enterprises had been agreed compared to 80% the year before. Presumably the agreement between Yeltsin and Gorbachev in early January makes it possible to operate for the remainder of 1991 but the inability to reach contractual agreements on plans reflects the confusion that exists as the Soviet Union tries to move from a planning system to a market system.

With production declining there is also growing concern about the Soviet Union's ability to export. In 1988 the Soviet Union exported 144 million tons of crude oil. In 1989 the total dropped to 127 million tons and it is expected that in 1990 they exported only 100 million tons of crude oil, almost a 50% drop from 1988. Equally disturbing is the fact that it is expected exports will reach only 60 to 80 million tons in 1991.

Export earnings as a whole are expected to reach 40 billion rubles in 1991 (versus 68 billion rubles in 1989). What is bothersome about that 40 billion rubles however is that they expect that 12.5 billion rubles of it will have to be deducted to service the past Soviet debt.

Inflation Continues

There is supplemental information about the growth of inflation in the Soviet Union. The Soviets have published some information about prices in the collective farm markets on agricultural products based on a sample of 264 cities. The

following table reflects the fact that in January 1990 prices were 13% higher than was the case in 1989. However by June the figure had reached a 27% increase over the preceding June and in October the figure was 38%.

At the same time the Soviets have also published figures which help explain why there are so few goods in state shops. They have published data showing how much higher prices are in what they refer to as the black market compared to the state shops. In the case of meat for example the price in the black market is 4 time higher than it is in the state shops. The price of medicines and cigarettes is 8 times higher and the price of books is 6 times higher.

Prices of Agricultural Products at Collective Farm Markets in 1990

	% of prices compared with 1989
January	113
February	112
March	112
April	117
May	121
June	127
July	129
August	130
September	134
October	138
Jan.-Oct	125

Arden House Preparations Underway

We are in the process of completing the program for the annual Arden House Conference. The program should be sent out shortly but already we have commitments from Stanislaw Shatalin, the author of the 500 Day Plan, and Ivan Ivanov, the Deputy Minister of the Commission on Foreign Economic Relations, to attend. In addition Mark Winer, the General Manager of McDonald's in Moscow, will be present as will E. B. Scott, the Vice President of International Petroleum of Chevron who is responsible for Chevron's joint venture in the Soviet Union. In addition there will be the regular attendance of academics including several economists such as Martin Feldstein and Benjamin Friedman of the Harvard Economics Department and Stanley Fisher of MIT's Economics Department, all of whom have been working on the Soviet Union. Ben Friedman has worked as a member of the Shatalin Commission and Stanley Fisher was very much involved with the preparation of the IMF-World Bank when he was chief economist at the World Bank. Given what is happening in the Soviet Union, this promises to be one of the most interesting of all the 15 conferences we have had.

Conference on Conversion

The February 4th conference on conversion of military to civilian industry is rapidly approaching. We have just had confirmation from the Soviet Union that they will be sending the Deputy Minister of the Nuclear Tools Industry, Yurii Tychkov. In addition he will be bringing with him the Director of the Nuclear Machinery Plant in Novosibirsk as well as the director of one their export firms dealing with nuclear equipment. The comparisons between the Soviet experience and the American experience should be intriguing. The program and the application form is included with the newsletter.

FOREIGN EXCHANGE RATES
as of December 26, 1990
Quoted in rubles

	Official Rate	Commercial Rate	Special Rate
£100 Sterling	105.79	317.37	1057.90
100 Aust. Sch.	5.22	15.66	52.20
100 D. Marks	36.71	110.13	367.10
100 D. Guilders	32.51	97.53	325.10
100 U.S. Dollars	56.40	169.20	564.00
100 Fr. Francs	10.80	32.40	108.00
1,000 Jap. ¥	4.15	12.45	41.50
10,000 It. Lire	4.88	14.64	48.80
100 Swiss Frs.	43.00	129.00	430.00
100 Nor. Kroner	9.38	28.14	93.80
1,000 Bel. Frs.	17.77	53.31	177.70
100 Sw. Kronor	9.86	29.58	98.60

The opinions published here reflect those of the author and not the Russian Research Center unless stated as such. ©1990.

Shevardnadze's sacrifice

MARSHALL I. GOLDMAN

Soviet Foreign Minister Eduard Shevardnadze's resignation has probably hurt Soviet leader Mikhail Gorbachev as much as anything could. Gorbachev has acknowledged that the original idea for perestroika and glasnost arose out of a conversation he had several years ago with Shevardnadze as they walked along the Black Sea coast in the republic of Georgia. Why, they asked each other, can't the people of the Soviet Union enjoy a better life? Why must we be on the brink of war, with all the waste it entails, and why can't we relax our police controls?

Once Gorbachev became general secretary, he decided to try for a better life and lifted Shevardnadze out of domestic political affairs and made him foreign minister. Andrei Gromyko's frown quickly dissolved into Shevardnadze's smile. More important, nyet became da, and the world became a happier, more relaxed place.

The relaxation of world tensions was an important part of that reform process. That meant that the Soviet Union could reduce its military expenditures and cut back on the size of its army.

That, in principle, should have made possible a diversion of resources to the production of more consumer goods. But the effort to improve day-to-day life did not succeed. In part, it took much longer to switch resources out of the military than anticipated. Thus Gorbachev was not able to produce as many consumer goods as he led the population to expect.

Because Gorbachev could not cut his budget expenditures, he ended up with a burdensome deficit that soon gave rise to an inflation rate that has now reached 50 percent a year and is growing. This, more than anything, has led to the hoarding and empty shelves.

At the same time, enough money was transferred from the Soviet military-industrial complex to set off concern among Soviet troops about their future. Gorbachev announced the unilateral demobilization of a half-million men. Most were ill-trained for civilian life and, in many cases, had no jobs or no homes. Added to that was the humiliation they felt after they were forced to withdraw from Afghanistan. Finally, there was enormous disappointment over the way that Germany quickly reunified and the East Europeans threw out their communist leaders. All this was seen as the inevitable consequence of Gorbachev's and Shevardnadze's foreign policy.

Against this background, hard-liners and anti-reformers began to coalesce. As they saw it, the final straw was Shevardnadze's vote in the United Nations to support US foreign and imperialist policies, if you will, in the Persian Gulf. Also, Shevardnadze seemed to be bargaining away the Soviet Union's strategic advantage in long-range missiles. In protest, some of these hard-liners began to call for Shevardnadze's resignation. Such calls were made in February at a Central Committee meeting and have been heard frequently since.

By resigning, Shevardnadze seems to be giving away to those demands. But somehow he seems to have hoped his dramatic step, with no notice to Gorbachev, would serve to arouse Gorbachev to the dangers of aligning himself too closely to the anti-reformers.

The stakes in this contest for Gorbachev's soul are enormous. Without Shevardnadze, the prospects for a US-Soviet summit are now in doubt, just as is the signing of a strategic-arms agreement. In addition, Saddam Hussein must feel happy that the new coalition of UN powers in the Persian Gulf is weaker than the US would like to think.

Finally, Shevardnadze is telling Gorbachev that he must come to terms with the secessionist movement in the republics. Shevardnadze, a Georgian, must feel loyalty to his people, who have been the most worried about transferring power to a Soviet president.

"Gorbachev is my friend," said Shevardnadze, "but someday he won't be the Soviet president and we will end up with another dictator." This is a frightening prospect, not only for the Soviet people but also for the United States. In a sense, Shevardnadze sacrificed himself to avoid it.

Marshall I. Goldman is a professor of Soviet economics at Wellesley College and the associate director of the Russian Research Center at Harvard University.